

Tennessee Education Lottery Scholarship Policy Issues

Higher Education Perspective

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(Revised February 2008)

During the last legislative session, Tennessee policymakers looked to the higher education community for perspectives on utilizing lottery proceeds for student financial aid. Accordingly, representatives of the Tennessee Higher Education Commission, Tennessee Board of Regents, University of Tennessee, Tennessee Independent Colleges and Universities Association, Tennessee Student Assistance Corporation, and Tennessee Association of Student Financial Aid Administrators met periodically during the summer and fall of 2007 for a series of informal discussions on existing legislative proposals.

Early on, it became apparent that some participants favored one proposal over another. Therefore, rather than sorting the proposals in priority order or voting yes-no on every proposal, the group sought to evaluate each proposal individually and arrive at the most workable approach were the proposal to be enacted. The resulting document reflects the outcome of those discussions. A summary of each proposal provides issue background, current policy, existing legislative proposals, higher education's consensus as to the best approach, and the estimated cost.

As in the past, the group remains agreed on keeping the lottery reserve intact so that interest earned on that account can continue to benefit Tennessee students in perpetuity. Given the most recent estimates for 2007-08 lottery net proceeds and scholarship program expenses, \$20-\$40 million remains available for program expansion, depending on how much of the lottery reserve is set aside to generate interest for need-based aid.

The following page contains a summary of the issues addressed here, estimated costs for policy shifts and additional students served. Each issue is explored more extensively in the remainder of the document. Please note that cost estimates are based on data from students enrolled in Fall 2004 – Fall 2006. Estimates may change once Fall 2007 data become available in early January.

Summary of Issues, Estimated Cost and Additional Students Served

	Issue		Estimated Cost (fully implemented)	Students Served	Pg #
Program Expansion	Need-based aid	TSAA Supplement	\$10 million	5,000	1
		Aspire award retention at satisfactory academic progress	\$11 million	7,330	2
	Non-traditional students	Expand program qualifications	\$3.2 million*	1,900*	3
	Community College	19 composite ACT or 3.0 HS GPA qualification	\$14.9 million (award amount \$2,500)	4,280 new students 8,640 existing HOPE students	5
		Free tuition and fees for low-income adults	\$4 million	16,708 students	
	Retention GPA	Move to 2.75	\$17.5 million*	4,160*	7
		Move to 2.75, fund at ¾ of total award	\$13.1 million*	4,160*	
	Fast-track	Allow summer hours to be paid by HOPE, accelerate time to 120 hours	\$8.7 million	6,000	8
	Early commitment scholarship program	Costs dependent on program design	\$16.5 million (pilot serving 3 large school districts, 4 smaller districts)	41,000	9
			\$36 million (statewide)	140,000	
	Dual enrollment	Allow 6 courses or 18 college credits	\$2.4 million	3,300	10

Program Maintenance	<i>HOPE Foster Care</i>	Define “Gift Aid” and “Cost of Attendance”	\$50,000	35	11
	<i>Military Dependents</i>	Define “home of record”	\$840,000	400	12
	<i>Campus location</i>	Define eligible institutions	No cost	All students	13
	<i>FAFSA</i>	Retain FAFSA requirement	No cost	All students	14

Additional Issues in Program Administration

(to be addressed separately by Tennessee Association of Student Financial Aid Administrators (TASFAA))

- Retention GPA Calculation
 - Institutional or Lottery
 - Estimated Cost when fully implemented: \$4.6 million
 - Additional students served: 2,650
 - Timing (end of semester or benchmarks)
 - Estimated Cost when fully implemented: No cost
- Full and part-time status
 - Estimated Cost when fully implemented: TBD
 - Additional students served: TBD
- Income eligibility calculation for need-based Aspire award (Estimated Family Contribution or Adjusted Gross Income)
 - Estimated Cost when fully implemented: \$1.1 million
 - Additional students served: 720

*Revised February 1, 2008

Need-based aid

- Lottery reserve account
- Aspire supplemental need-based award

Issue Background

Lottery Reserve Account

The Tennessee Constitution specifies that the Tennessee Education Lottery must always have at least \$50 million in reserve for the TELS program. Any additional yearly excess can either be spent on scholarships, afterschool programs, early childhood programs, or K-12 capital outlay.

For each year since the start of the program as the program has slowly grown to be fully mature, lottery revenues have outpaced need within the existing lottery scholarship programs. The program is now fully mature and the lottery reserve account now has about \$400 million. There are a number of proposals for what to do with the reserve account. Any proposals should remember that the reserve funds are one-time, not recurring, and that future pressure on the TELS program could create a need for the funds.

In the 2007 legislative session, the General Assembly voted to allocate \$10 million of interest from the lottery reserve account to the Tennessee Student Assistance Award (TSAA). TSAA is only able to fund grants for 48 percent of eligible students.

Aspire need-based supplemental award

Students that qualify for the \$4,000 base HOPE award (21 ACT composite score or a 3.0 high school GPA) and whose adjusted gross income is less than \$36,000, also qualify for the Aspire need-based supplement of \$1,500. While other state and federal need-based aid is only contingent upon satisfactory academic progress, the Aspire award is contingent upon both merit and need through the student's maintenance of the HOPE award.

Legislative Provision	Current law	Higher Ed Consensus
Lottery reserve account	Lottery reserve interest funds were dedicated to TSAA in 2007 in a one-time appropriation	Set aside \$200 million of lottery reserve funds in a special account designed to supplement TSAA yearly. Account would be monitored by the Board of TSAC \$10 million supplement per year
Aspire need-based supplemental award	Retention contingent upon maintenance of HOPE award	Retention contingent upon satisfactory academic progress

Estimated Cost

- Lottery reserve interest dedicated to TSAA
 - Fully implemented: \$10 million of lottery reserve account interest
 - 5,000 additional students
- Aspire need-based supplemental award retention
 - 1st Year Cost: \$4.5 million
 - 990 2-Year @ \$1.5 million
 - 2,010 4-Year @ \$3 million
 - Fully implemented: \$11 million
 - 1,780 2-Year @ \$2.7 million
 - 5,550 4-Year @ \$8.3 million

Non-traditional Students

Issue Background

Tennessee currently ranks 43rd in educational attainment as determined by the percentage of adults aged 25 and older with at least a bachelor's degree. To reach the national average in educational attainment, Tennessee would need to graduate roughly 180,000 additional students. Reaching that goal with traditional aged students alone is nearly impossible.

The non-traditional student component of the TELS program has an extremely low subscription rate. Several minor, but key changes, to the program could allow the enrollment of significantly more students.

Legislative Provision	Current Law	Higher Ed Consensus
Age Eligibility	25	No change
Academic Preparation	Student must be qualified as an entering freshman, i.e. must never have taken courses previously in postsecondary	Must have not taken courses for two previous years Previous coursework does not count in lottery GPA or hours toward lottery scholarship
	24 Credit hours required with GPA of 2.75	12 Credit hours required with GPA of 2.75
Retention	Part-time enrollment status required (6 hours minimum)	No change
	GPA of 3.0 at 48 hours and beyond	GPA of 2.75 at 48 hours and beyond
	Students cannot move from full-time to part-time within a semester and remain eligible	No change
Income	Adjusted gross income less than \$36,000	Equivalent to change in Aspire award (\$40,000 or \$45,000)

Estimated Cost

- Provisions:
 - Non-traditional student award available after 12 hours of coursework at 2.75 to all TN residents aged 25 and older having not taken courses for previous 2 years.
 - 1st Year Cost: \$3.2 million

- 1,250 additional part-time students
 - 1,050 2-Year @ \$1 million
 - 275 4-Year @ \$500,000
- 650 additional full-time students
 - 400 2-Year @ \$800,000
 - 250 4-Year @ \$900,000
- Fully implemented: \$3.2 million
 - 1st year cost and fully implemented cost are equal as students across all student levels are able to access award

Community College

Issue Background

Since the beginning of the lottery scholarship, community college enrollment has grown 2 percent. Over that same period, four-year institutions have seen enrollment growth of 11 percent. From Fall 2006 to Fall 2007, community college growth was flat.

The total number of students enrolled in community colleges in Fall 2006 was roughly 76,500. Of those students, 41 percent, or 31,500 were adults (over 25). Traditional aged students (under 25) were 59 percent, or 45,000. Enrollment of traditional aged students in community college has grown by 6 percent since the lottery scholarship began, and fallen by 4 percent among adult students in that same period.

Financial aid programs are one policy option to increase enrollment.

Legislative Provision	Current Law	Higher Ed Consensus
Traditional aged community college students	Students with a 21 composite ACT or a 3.0 in high school are eligible for HOPE and Aspire Students with an 18 composite ACT and a 2.75 GPA are eligible for HOPE Access	Replace all community college TELS awards with one community college award of \$2,500 Students would qualify for the award with a 19 composite ACT score or a 3.0 in high school.
Adult community college students	Students who have never entered college previously, take 24 hours on their own, finish 24 with a GPA of 2.75 and have an adjusted gross income of less than \$36,000 are eligible for HOPE non-traditional award	Replace HOPE non-traditional award at community colleges with free tuition and fees for all Pell eligible adult students

Estimated Cost

- Traditional aged students
 - For eligible new students (19 and 20 on ACT)
 - The program would cover tuition and fees of \$2,500 (tuition and fees in 2007-08)
 - 1st year cost: 2,378 students @ \$2,500 = \$5,945,000
 - Fully implemented: 4,280 students @ \$2,500 = \$10,700,000

- For eligible HOPE students (21 or 3.0)
 - The program would cover the difference between current HOPE and the new award or \$500 per student
 - 1st year cost: 4,700 students @ \$500 = \$2,350,000
 - Fully implemented: 8,460 students @ \$500 = \$4,230,000
- Total program cost
 - 1st Year cost: \$8,295,000
 - Fully implemented: \$14,930,000
- Adult students
 - For Pell eligible adults over 25, the program would cover tuition and fees
 - Fully implemented: 16,708 students @ \$4 million
 - 8,521 additional part-time students
 - 8,187 additional full-time students

HOPE Scholarship Retention GPA

Issue Background

The 3.0 college GPA required for scholarship renewal was chosen because it was a standard commonly used by other states with similar programs; it encouraged students to perform academically at a high level in college; and it was fiscally responsible. The lower GPA of 2.75 in the first-year was designed to give students time to adjust to college.

In practice, it is difficult for students to move from a 2.75 after 24 hours to a 3.0 after 48 hours. Of Fall 2004 first-time freshmen students who finished their first 24 hours between 2.75 and 3.0, only 26 percent also achieved a 3.0 by 48 hours.

Legislative Provision	Current Law	Higher Ed Consensus
HOPE Scholarship Retention GPA	3.0 at the end of semester in which a student has attempted 48, 72, or 96 hours	2.75 at the end of semester in which a student has attempted 48, 72, or 96 hours

Estimated Cost

- Provision: Allow 2.75 GPA to determine HOPE eligibility at the end of semester in which a student has attempted 48, 72, or 96 hours
 - 1st year cost: \$7.1 million
 - 1,750 additional students
 - 270 2-Year @ \$600,000
 - 1,480 4-Year @ \$6.4 million
 - Fully implemented: \$17.5 million per year
 - 4,160 additional students (across all student levels)
 - 400 2-Year @ \$900,000
 - 3,760 4-Year @ \$16.6 million
- Provision: Fund 2.75 GPA at $\frac{3}{4}$ of total award (as determined at the end of semester in which a student has attempted 48, 72, or 96 hours)
 - 1st year cost: \$5.3 million
 - 1,750 additional students
 - 270 2-Year @ \$450,000
 - 1,480 4-Year @ \$4.85 million
 - Fully implemented: \$13.1 million per year
 - 4,160 additional students (across all student levels)
 - 400 2-Year @ \$680,000
 - 3,760 4-Year @ \$12.42 million

Fast-Track

- Summer enrollment
- Total credit hours

Issue Background*Summer enrollment*

Under current provisions, TELS does not pay for students enrolled during the summer, but the hours earned count against students in their 120 total credit hour allotment. Funding summer coursework would address this issue and the original goal of expediting students toward a college degree.

Total credit hours

Students seeking degrees that require more than 120 credit hours are currently able to receive funds up to 136 hours.

Legislative Provision	Current Law	Higher Ed Consensus
Summer enrollment	Students are not eligible to receive TELS funding in the summer.	Fund summer coursework for part and full time students (6 hours or more), while maintaining the 120 total credit hour provision.
Total credit hours	Students can receive funding for up to 120 hours of coursework. Students in programs requiring more than 120 hours can receive funds up to 136 hours.	No change.

Estimated Cost

- 1st year cost: \$8.7 million
 - 6,900 students per summer
 - 1,950 2-year @ \$1.8 million
 - 4,950 4-year @ \$6.9 million
 - Per student cost is graduated based on total credit hours
- Fully implemented: \$8.7 million
 - The program would be fully implemented in the 1st year assuming all students would immediately be eligible for summer coursework. The 1st year cost figure includes students at all levels.

Early Commitment Scholarship Program

Issue Background

Low-income Tennessee students are not enrolling in college as often as their more affluent peers. Early commitment scholarship programs have been proven to increase high school graduation, college going, retention, and college graduation rates.

THEC has a feasibility study outlining how an early commitment program could be established in Tennessee. The study will be available at the beginning of the legislative session.

Legislative Provision	Current Law	Higher Ed Consensus
Early commitment scholarship	No current programs	Establish a scholarship program for low-income students requiring academic preparation, college access activities, and scholarship requirements

Estimated Cost

Cost for an early commitment program will be driven by factors outlined in the feasibility study. A fully subscribed program in Tennessee would cost between \$10.5-37 million per year in early intervention and \$6-16 million per year in scholarships. Possible funding sources include federal funds such as GEAR UP, state general or lottery funds, and private funds.

Dual Enrollment

Issue Background

In order to promote college access and give students a chance to get a head start on college coursework, a dual enrollment grant is offered for Tennessee high school juniors and seniors to take college level coursework. The program has been popular in its first two years of operation and an expanded program would increase benefits to students.

Legislative Provision	Current Law	Higher Ed Consensus
Dual Enrollment grant	High school students can earn 12 college credits over 2 years (or 4 paid classes).	High school students can earn 18 college credits over 2 years (or 6 paid classes)

Estimated Cost

- Provision: Expand the current dual enrollment grant to pay for 6 college courses for high school students, instead of 4 college courses.
 - Current cost: \$2.1 million
 - Total yearly cost increase: \$2.4 million
 - 3,300 additional students @ \$432 per student
 - Assumes 20 percent yearly enrollment growth over current student population.
 - Current cost per credit is \$100. On average students receive 72 percent of total funding or \$432.
 - Total yearly cost at increased program size: \$4.5 million
 - 9,600 students @ \$432 per student
 - Assumes 20 percent yearly enrollment growth over current student population.
 - Current cost per credit is \$100. On average students receive 72 percent of total funding or \$432.

Program Maintenance

HOPE Foster Care

Issue Background

T.C.A. 49-4-933(2) states that the HOPE Foster Child Tuition Grant shall cover any costs of tuition, maintenance fees, student activity fees and required registration or matriculation fees remaining after applying all other student financial assistance from all sources towards the student's cost of attendance. The grant cannot exceed the amount of tuition and fees. Based on an opinion from the Attorney General's Office, language in the statute serves to include loans and work-study in the calculation.

Legislative Provision	Current Law	Higher Ed Consensus
Change how HOPE Foster Child Tuition Grant is calculated	Includes loans and work-study in the calculation of the HOPE Foster Child Tuition Grant	Define "Gift Aid" and "Cost of Attendance"

Estimated Cost

For the 2006-07 academic year, there were 17 students who received \$34,600 from the HFCTG. If loans and work study were not included in the calculation, these students plus an additional five (5) students would have received an additional \$50,000. This would have increased the total amount of the program to the 2005-06 level.

We mention the 2005-06 academic year because for that academic year, TSAC interpreted the law differently and administered the program to exclude loans and work-study in the calculation of "all other financial assistance." After the AG's opinion was issued, TSAC changed administration of the program.

For the 2007-08 academic year, TSAC has awarded 14 students totaling \$32,000. If loans and work-study are defined as "gift aid" and excluded in the calculation, the first-year cost will again be an additional \$50,000.

- 1st year cost: \$50,000
- Fully implemented: \$100,000

Military Dependents

Issue Background

Current law provides for dependent children of military parents to qualify for the HOPE Scholarship if they meet eligibility requirements. However, dependent children of military members who entered active duty from a state other than Tennessee are ineligible if the parent is transferred to another state while on active duty.

Legislative Provision	Current Law	Higher Ed Consensus
Allow certain dependent children of military members to qualify for HOPE	Requires home of record to be Tennessee when military parent entered active duty	Change requirement of Tennessee to be home of record at time of entry into military service to state of residence at time of application/define "home of record"

Estimated Cost

An assumption is made that this will allow approximately 100 students to qualify for the scholarship in year one. This will make the first-year impact approximately \$400,000 (100 x \$4,000).

- 1st year cost: \$400,000
- Fully implemented: \$840,000

Campus Location

Issue Background

Definitions of campus location are inconsistent for TELS eligible institutions. Currently one section of the statute defines an eligible institution as needing to be “located” in Tennessee and the next sub-section defines it as “with the primary campus domiciled” in Tennessee. This change will clarify the language according to the original legislative intent.

Legislative Provision	Current Law	Higher Ed Consensus
Eligible post-secondary institution	Defines eligible institutions as accredited by SACS that are located in Tennessee (49-4-409-10-B)	Replace the word “located” with the phrase “with the primary campus domiciled” to make consistent with 49-4-409-10-C-ii

Estimated Cost

- None

FAFSA

Issue Background

The Free Application for Federal Student Aid (FAFSA) is the application used by Tennessee students seeking various forms of federal and state financial aid, including the lottery scholarship. Requiring the FAFSA allows federal and state dollars to flow to Tennessee students who would not otherwise receive them. In 2004-05, filling out the FAFSA resulted in \$13 million additional federal Pell Grant dollars for 5,300 additional Tennesseans.

The FAFSA provides data vital to our understanding of the program's impact on students' educational attainment. The FAFSA is the source of several data elements (financial and otherwise) vital to policy decision-making and to THEC's statutory responsibilities for research and reporting.

Legislation has been considered that would eliminate the FAFSA as the universal application for lottery scholarships.

Legislative Provision	Current Law	Higher Ed Consensus
TELS application procedures	Students must complete the FAFSA to apply for TELS.	<p>No change*</p> <p>*If a change is made, the preference would be that an alternate online short form be developed.</p> <p>The short form would include broad income categories. Students who select an income category below \$60,000 would automatically be entered into the full FAFSA online.</p> <p>Including broad income categories would allow low-income students to continue to receive needed federal aid. They are also necessary to report to the legislature on income disparities in the TELS programs.</p>

Estimated Cost

- None